

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 NSC-05

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 L-03 H-01 PA-01 PRS-01 FEA-01

AGRE-00 OES-07 /094 W

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FM AMEMBASSY LISBON

TO SECSTATE WASHDC 2544

C O N F I D E N T I A L LISBON 6136

DPET. PASS SYVRUD AT TREASURY

E.O. 11652: GDS

TAGS: EFIN, ECON, PO

SUBJECT: PRESS ANNOUNCES IMPENDING ESCUDO DEVALUATION;

PM SOARES ISSUES WEAK DENIAL

REF: LISBON 6073

SUMMARY. CENTER-LEFT WEEKLY "EXPRESSO", IN AUGUST 6 EDITION, HEADLINES SECOND PACKAGE OF ECONOMIC BELT-TIGHTENING MEASURES WHICH IT SAYS GOP WILL ANNOUNCE ON FRIDAY, AUGUST 13. MEASURES FORESEEN INCLUDE FURTHER 8 PERCENT ESCUDO DEVALUATION, MINIMUM 4 PERCENT HIKE IN INTEREST RATES, HIGHER PRICES, AND MEASURES AIMED AT RESTORING ECONOMIC VIABILITY OF TEETERING FIRMS. PM SOARES' "DENIAL" AUGUST 7 WAS UNCONVINCING. END SUMMARY.

1. AUGUST 6 EDITION OF CENTER-LEFT WEEKLY "EXPRESSO" HEADLINES PACKAGE OF ECONOMIC AUSTERITY MEASURES IT SAYS GOP PLANS ANNOUNCE ON AUGUST 13. ARTICLE SAYS GENERAL PACKAGE WAS HAMMERED OUT LATE LAST WEEK AND FOLLOWS CLOSELY PROPOSALS MADE LAST MAY TO COUNCIL OF MINISTERS BY FINMIN MEDINA
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CARREIRA (AND "PREVIEWED" IN PLANNING MINISTER SOUSA GOMES' LENGTHY PRESS INTERVIEW AUGUST 3, (REFTEL.) DETAILS ARE TO BE IRONED OUT THIS WEEK BY CABINET.

2. PROPOSED MEASURES INCLUDE:

A. MINIMUM EIGHT ESCUDO DEVALUATION, WITH DOWN-
WARD CRAWLING PEG OF ADDITIONAL 1.5 PERCENT MONTHLY SHOULD

EXCHANGE MARKET CONDITIONS WARRANT;

B. MINIMUM INCREASE OF FOUR PERCENT IN INTEREST RATES, DEPENDING ON AMOUNT OF DEVALUATION ULTIMATELY AGREED UPON;

C. HIGHER GASOLINE PRICES, WITH POSSIBLE RATIONING AS WELL;

D. HIGHER PRICES FOR OTHER GOODS AND SERVICES, INCLUDING PUBLIC TRANSPORT;

E. SPECIAL DISPENSATION, VIA NEW LEGISLATION, FOR FIRMS IN DIRE ECONOMIC AND FINANCIAL STRAITS TO PERMIT THEM TO DISREGARD LABOR CONTRACTS ANY PAY LOWER WAGES, IF JUDGEDE NECESSARY TO EXTRICATE THEM FROM PRECARIOUS FINANCIAL POSITION. TOURISM, FISHERIES, AND MEDIA SECTORS MOST LIKELY TO BE AFFECTED;

F. MEASURES TO PERMIT INSOLVENT FIRMS TO DECLARE BANKRUPTCY AND TO PROVIDE UNEMPLOYMENT COMPENSATION TO EMPLOYEES.

G. CREATION OF CONTRACTUAL RELATIONSHIP BETWEEN GOP AND PUBLIC ENTERPRISES THROUGH WHICH GOP COULD SET PERFORMANCE STANDARDS, AND INITIATION OF REGULAR INSPECTION BY GOVERNMENT AUDITORS OF GOP-SUBSIDIZED FIRMS TO INSURE ACCOUNTABILITY OF PUBLIC RESOURCES;

H. PORTUGUESE FIRMS WITH OPERATIONS ABROAD WILL BE REQUIRED TO REPATRIATE EARNINGS BY A GIVEN DATE;

I. STRICT CONTROLS OVER FIRMS' INVENTORIES WILL BE INTRODUCED TO PREVENT SPECULATIVE WITHOLDING OF STOCKS FROM MARKET IN ANTICIPATION OF HIGHER PRICES;
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J. ESTABLISHMENT OF A "FUNDO NACIONAL DE DESENVOLVIMENTO ECONOMICO," TASKED WITH PROVIDING FINANCING FOR INDUSTRIES TARGETED IN GOP DEVELOPMENT PLAN, AND CREATION OF THE "INSTITUTO FINANCEIRO DE APOIO AO DESENVOLVIMENTO DA AGRICULTURA E PESCA," THAT WOULD PROVIDE SIMILAR SUPPORT FOR AGRICULTURE AND FISHING INDUSTRIES.

K. AS MEANS OF ATTRACTING PRIVATE SAVINGS, FIRMS WILL BE AUTHORIZED TO ISSUE EQUITY SHARES AND DEBT ISSUES OF VARYING MATURITY.

3. PM SOARES' AUGUST 7 DENIAL OF IMPENDING ESCUDO DEVALUATION COULD FORCE GOP'S HAND AHEAD OF SCHEDULE SHOULD PRESSURE ON FOREIGN EXCHANGE RESERVES BE FURTHER EXACERBATED. (DURING VISIT TO NORTHEAST OF COUNTRY AUGUST 7, PM SAID TO PRESS THAT RUMORS SUCH AS DEVALUATION SHOULD NOT BE LIGHTLY AIRED, UNLESS RUMORS HAVE AT LEAST MINIMUM BASIS IN FACT, WHICH HE THEN PROCEEDED TO SAY ARE LACKING IN PRESENT INSTANCE.)

4. COMMUNIST "O DIARIO" PREDICTABLY CALLED MEASURES CITED BY "EXPRESSO", PARTICULARLY DEVALUATION AND PRICE HIKES, CAPITULATION TO IMPERIALIST PRESSURES, REINFORCED BY

RECENT VISIT BY IMF TEAM.

5. COMMENT: "ESPRESSO" ARTICLES MAY BE CLOSE TO THE MARK.
AUGUST 3 INTERVIEW OF PLANNING MINISTER, IN WHICH HE ARGUED
NEED FOR MANY OF MEASURES CITED ABOVE, TELEGRAPHS CURRENT
GOP THINKING.
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Message Attributes

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Disposition Case Number: n/a
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